

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Saginaw County CMH Authority	County Saginaw
Fiscal Year End September 30, 2006	Opinion Date January 29, 2007	Date Audit Report Submitted to State March 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|-----|----|--|
| YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|----|--|
1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. The local unit has adopted a budget for all required funds.
 5. A public hearing on the budget was held in accordance with State statute.
 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. The local unit only holds deposits/investments that comply with statutory requirements.
 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. The local unit is free of repeated comments from previous years.
 12. The audit opinion is UNQUALIFIED.
 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. The board or council approves all invoices prior to payment as required by charter or statute.
 15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None required	
Certified Public Accountant (Firm Name) The Rehmann Group		Telephone Number 989-799-9580	
Street Address 5800 Gratiot		City Saginaw	State Zip MI 48605
Authorizing CPA Signature 		Printed Name Gerald Desloover	License Number 1101007126



Saginaw, Michigan

Financial Statements

For the Year Ended September 30, 2006

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

January 29, 2007

Members of the Board
Saginaw County Community
Mental Health Authority
Saginaw, Michigan

We have audited the accompanying financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the *Saginaw County Community Mental Health Authority*, as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the major fund and the aggregate remaining fund information of the Authority, as of September 30, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2007, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *Saginaw County Community Mental Health Authority's* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

Saginaw County Community Mental Health Authority's Management's Discussion and Analysis (MD&A) Fiscal Year Ended September 30, 2006

A Management's Discussion and Analysis (MD&A) is an easily readable analysis of the financial activities based on known facts, decisions, and conditions. It provides information in a fair and objective manner, with the goal of assisting users in assessing whether the financial position has improved or deteriorated as a result of the year's operations.

The following financial data is the management's discussion and analysis of the three financial reports that have been audited by the external audit team, The Rehmann Group, who were contracted by the Board of Directors of SCCMHA to complete an independent review and express an opinion with regard to the fair presentation of the financial statements prepared by the staff at SCCMHA.

The following three financial statements have been prepared to report the current financial position and activity of Saginaw County Community Mental Health Authority (SCCMHA) for fiscal year 2005/2006.

Statement of Net Assets

This statement reports combined assets and liabilities and fund net assets for the enterprise fund as well as the internal service funds. It shows the current financial position as well as the breakdown of total net assets for restricted or unrestricted purposes.

Statement of Activities and Proprietary Fund Revenues, Expenses, and Changes in Fund Net Assets

This statement is used to disclose how both operating and non-operating revenues and expenses are generated within the enterprise fund and internal service funds, as well as how operating expenses are split between service populations. This report totals the expenses against revenues that have been generated for determination of the change in net assets, which is also shown as total net assets on the Statement of Net Assets.

Statement of Cash Flows

The total cash and cash equivalents at year end is calculated by determining the change in cash flow totals during the year. This report shows summarized change in cash flow, which reconciles to the net increase (decrease) in cash and cash equivalents and is then added to cash and cash equivalents at the beginning of the year. The total of cash and cash equivalents at the end of the year is reported in the assets section of the Statement of Net Assets.

The following summarized financial statements have been prepared to help facilitate this discussion and analysis, and also to assist the reader in understanding the data that explains the financial position.

Statement of Net Assets

	9/30/2006	9/30/2005	Increase (Decrease)
Assets			
Current assets	\$ 11,850,891	\$ 14,375,625	\$ (2,524,734)
Long term investments (*Note)	7,569,222	6,124,596	1,444,626
Capital assets, net of accum. depr	2,747,129	2,445,469	301,660
Total assets	22,167,242	22,945,690	(778,448)
Liabilities			
Current liabilities	9,083,522	10,811,127	(1,727,605)
Long term liabilities	1,469,003	918,092	550,911
Total liabilities	10,552,525	11,729,219	(1,176,694)
Net assets			
Investment in capital assets, Net of related debt	976,439	1,422,374	(445,935)
Restricted	8,306,568	8,278,410	28,158
Unrestricted	2,331,710	1,515,687	816,023
Total net assets	\$ 11,614,717	\$ 11,216,471	\$ 398,246

* Note - The classification of long term investments represents the various investments that have been separately classified to cover the post employment health insurance plan.

Summarized in this manner, the reader is able to see the comparison of FY05 and FY06 totals which have resulted in a decrease of assets in the amount of \$778,448 and a reduction in liabilities by the amount of \$1,176,694. Both of these totals and the increase in net assets in the amount of \$398,246 will be discussed in detail on the following two pages.

ASSETS

The following breakdown of assets helps to identify where the changes occurred within the various classifications of assets between FY05 and FY06.

Bold items represent the current position for each classification of asset.

	<u>Two Year Comparison</u>
Increase (decrease) in cash	\$ (170,926)
Increase (decrease) in receivables	139,634
Increase (decrease) in due from MDCH	(2,539,121)
Increase (decrease) in short term investments	(19,624)
Increase (decrease) in long term investments	1,444,626
Increase (decrease) in net capital assets	301,660
Increase (decrease) in all other assets	<u>65,303</u>
Total increase (decrease) in assets	<u>\$ (778,448)</u>

In summary, the main reason for this decrease in the two year comparison of assets is as a result of the decrease in due from MDCH, which was a result of allowed risk sharing by MDCH in FY 2005.

LIABILITIES

The following breakdown of liabilities helps to identify where the changes occurred within the various classifications of liabilities between FY05 and FY06.

Bold items represent the current position for each classification of liability.

	<u>Two Year Comparison</u>
Increase (decrease) in accounts payable	\$(1,144,116)
Increase (decrease) in due to State of Michigan	(264,803)
Increase (decrease) in long term debt	560,911
Increase (decrease) in deferred revenue ABW	369,878
Increase (decrease) in deferred revenue Medicaid	(781,894)
Increase (decrease) in deferred revenue GF	220,637
Increase (decrease) in all other liabilities	<u>(137,307)</u>
Total increase (decrease) in liabilities	<u>\$(1,176,694)</u>

In summary, the decrease in total liabilities resulted from the decrease in accounts payable. The deferred ABW and GF revenues will be carried over and will be available for FY07 funding.

TOTAL NET ASSETS

Our analysis of total net assets includes identification of the classification of assets as either restricted or unrestricted as set forth by the Governmental Accounting Standards Board No. 34 (GASB34).

Bold items represent the current position for each classification within net assets.

The increase in total net assets, as shown below, is a result of an increase in restricted and unrestricted assets and a decrease in investments in capital, net of related debt, as follows:

The change in net assets between FY2005 and FY06, is reported as follows:

	<u>Two Year Comparison</u>
Total increase (decrease) in investments in capital assets, net of related debt	\$ (445,935)
Total increase (decrease) in restricted assets	28,158
Total increase (decrease) in unrestricted assets	<u>816,023</u>
Increase (decrease) in total net assets	<u><u>\$ 398,246</u></u>
Change in investment in capital assets, net of related debit:	
Capital assets, beginning of year	\$ 1,422,374
Capital assets, end of year	<u>976,439</u>
Increase (decrease) in capital assets net of related debt	<u><u>\$ (445,935)</u></u>
Change in restricted assets from FY 2005 to FY 2006:	
Restricted for earmarked contributions decrease	\$ (15,439)
Restricted for postemployment benefits increase	1,401,299
Restricted for risk of managed care decrease	<u>(1,357,702)</u>
Increase (decrease) in total restricted assets	<u><u>\$ 28,158</u></u>
Change in unrestricted assets from FY 2005 to FY2006:	
Unrestricted funds, beginning of year	\$ 1,515,687
Unrestricted funds, ending of year	<u>2,331,710</u>
Increase (decrease) in unrestricted funds	<u><u>\$ 816,023</u></u>

**Statement of Activities and Proprietary Fund Revenues, Expenses
And Changes in Fund Net Assets**

	<u>9/30/2006</u>	<u>9/30/2005</u>	<u>Increase (Decrease)</u>
Operating revenue			
Medicaid revenue	\$ 33,196,833	\$ 33,271,343	\$ (74,510)
State general fund	9,034,667	8,888,278	146,389
ABW revenue	340,691	250,143	90,548
MI Child revenue	26,114	24,789	1,325
Local revenue	1,115,326	1,637,065	(521,739)
Grant revenue	<u>1,004,667</u>	<u>581,739</u>	<u>422,928</u>
Total operating revenue	<u>44,718,298</u>	<u>44,653,357</u>	<u>64,941</u>

(Medicaid Revenues include Medicaid Capitation, Savings, and Children's Waiver)

Operating expenses			
Program expenses			
Children with SED	2,621,850	3,001,195	(379,345)
Adults with SMI	17,718,215	22,769,661	(5,051,446)
Persons with DD	21,604,449	17,010,718	4,593,731
Other programs	1,279,463	1,054,784	224,679
Unallocated costs	76,786	38,742	38,044
Non-program	<u>2,394,690</u>	<u>851,965</u>	<u>1,542,725</u>
Total operating expenses	<u>45,695,453</u>	<u>44,727,065</u>	<u>968,388</u>

Operating income (loss)	(977,155)	(73,708)	(903,447)
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Non-operating revenues (expenses)	<u>1,420,121</u>	<u>808,822</u>	<u>611,299</u>
Change in net assets	442,966	735,114	(292,148)

Net assets, beginning of year, as restated	<u>11,171,751</u>	<u>10,481,357</u>	<u>735,114</u>
Net assets, end of year	<u>\$ 11,614,717</u>	<u>\$ 11,216,471</u>	<u>\$ 442,966</u>

Operating revenues increased from FY05 levels by \$64,941 and operating expenses increased in FY06 by \$968,388, which resulted in the total change in operating income of (\$903,447) between fiscal years 2005 and 2006.

Due to the increase of non-operating revenues for fiscal year 2006, in the amount of \$611,299, the change in net assets totals was (\$442,966) for the year.

Some of the changes within net assets, that created significant limitations affecting the availability of fund resources, are as follow:

The Adults with SMI decreased approximately \$5.5 million and the Persons with DD increased approximately \$4.5 million from the prior year to the current year as a result of the Authority allocating more expenses from the Adults to program to person with DD program. This will enabled the Authority to track services on a more consistent basis in the upcoming fiscal years.

Non-program expenses increased \$1.5 million from the prior year to the current year because the Authority is providing more substance abuse services than in the prior years.

Statement of Cash Flows

	<u>9/30/2006</u>	<u>9/30/2005</u>
Cash flows from operating activities provided from operations	\$ (1,323,693)	\$ (1,342,704)
Cash flows from non-capital financing operations	1,430,560	129,002
Cash flows from capital and related financing operations	(353,514)	(553,077)
Cash flows from investing operations	<u>75,721</u>	<u>(1,478,782)</u>
Net increase (decrease) in cash and cash equivalents	(170,926)	(3,245,561)
Cash and cash equivalents – beginning of year	<u>2,315,996</u>	<u>5,561,557</u>
Cash and cash equivalents – end of year	<u>\$ 2,145,070</u>	<u>\$ 2,315,996</u>

The decrease in cash and cash equivalents, end of year, is the impact of the full year’s reduction of Medicaid revenue as a result of MDCH’s FY04 rebasing activity. The cash flow from non-capital financing operations was the use of the remaining MH internal service funds to cover expenditures from operating activities.

Capital Assets

In order to identify some of the changes in capital assets, net of accumulated depreciation, and the effects of these changes on total net assets, the following discussion was prepared to accumulate significant events that occurred in FY 2006:

Ownership of Glenvale and Cambridge Homes

In May, 2006 the Saginaw County Building Authority debt was serviced on both the Glenvale and Cambridge group homes. As a result of this, SCCMHA took ownership of both of these properties, which have been recognized as fully depreciated assets and included in the books for fiscal year ended 9/30/06.

Additionally, the Authority included on the current years financial statements the ownership and corresponding notes payable related to the leased property from the Saginaw County Building Authority for eight group homes.

Long term Debt

The remaining obligation for leased property from the Saginaw County Building Authority has been recognized as of 9/30/06, since ownership will be transferred to SCCMHA when the debt for this property is serviced as follows:

PROPERTY	MO. LEASE PAYABLE AMOUNT	LEASE MATURITY	AMORTIZATION PERIOD
Weiss St Home	\$798.90	January 2008	15 Years
Navaho Trail Home	\$2,100.64	December 2008	15 Years
Roseview Home	\$1,910.53	December 2008	15 Years
Southport	\$1,597.10	November 2009	15 Years
Slatestone Home	\$2,300.13	December 2009	15 Years
Sloan Road	\$2,571.87	December 2009	15 Years
Woodlawn	\$2,062.03	December 2009	15 Years
Cedar Crest	\$1,889.90	December 2010	15 Years

Encompass Software Collaboration with WCHO

During FY 2006, the decision was made to discontinue the development and utilization of the newly purchased Harmony software. After discussions with consultants and experts, it became clear that this tool would not meet either the current or future needs of SCCMHA. During the winter of 2006, plans were made to collaborate with Washtenaw Community Health Organization (WCHO), who had developed "Encompass" a successful software product which has proven to better serve the needs of behavioral health providers. Because of the efforts of SCCMHA staff, the employees of WCHO, and PCE, the product developer, the Encompass software product was ready to go live on October 1, 2006.

Forecast

Following is a description of current known facts, decisions, or conditions that are expected to have a significant affect on the future financial position or operations.

Data Warehouse

Additional development, implementation and training will occur in 2007, to allow for increased functionality for all staff in the use of the new Encompass network software. A data warehouse will be created using SharePoint software, a tool that will allow the leadership at SCCMHA, to have timely access of critical data for use in decision making related to care management, quality and utilization, costing, and monitoring.

OPEB Actuarial Valuation

During the fall of 2006, Gabriel, Roeder, Smith & Company, will be completing an actuarial valuation of the post employment health care benefits associated with the retiree health care provided by SCCMHA. This valuation will be completed for purposes of determining future liability and complying with GASB Statements No. 43 and 45, which are effective during 2008 and 2009 respectively.

Capitated Funding

The Michigan Department of Community Health will be completing a new actuarial study during the summer of 2007. This study will be done on FY2005 and FY2006 encounter reporting, in an effort to rebase capitated Medicaid funding for FY 2008 thru FY 2010. SCCMHA staff work to continually improve data quality in order to provide the most accurate encounter data for this study.

CONTACTING THE AUTHORITY MANAGEMENT

This financial report is designed to provide a general overview of the Saginaw County Community Mental Health Authority's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Director of Finance, Saginaw County Community Mental Health Authority, 500 Hancock, Saginaw, Michigan 48602.

FINANCIAL STATEMENTS

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS**

SEPTEMBER 30, 2006

	Enterprise Operating Fund	Internal Service Funds	Adjustments	Total Business-type Activities
Assets				
Current assets:				
Cash and cash equivalents	\$ 579,213	\$ 1,565,857	\$ -	\$ 2,145,070
Investments	8,338,687	7,569,222	-	15,907,909
Receivables:				
Clients and insurance companies (net of allowance for doubtful accounts and settlement adjustments of \$430,066)	700,625	-	-	700,625
Due from Michigan Department of Community Health	418,012	-	-	418,012
Due from other funds	1,430,560	602,049	(2,032,609)	-
Inventory	18,663	-	-	18,663
Prepaid expenses	229,834	-	-	229,834
Total current assets	11,715,594	9,737,128	(2,032,609)	19,420,113
Noncurrent assets:				
Capital assets				
Assets not being depreciated	712,750	-	-	712,750
Assets being depreciated, net	2,034,379	-	-	2,034,379
Total noncurrent assets	2,747,129	-	-	2,747,129
Total assets	14,462,723	9,737,128	(2,032,609)	22,167,242
Liabilities				
Current liabilities:				
Accounts payable	5,106,688	-	-	5,106,688
Due to Michigan Department of Community Health	670,408	-	-	670,408
Accrued liabilities	7,597	-	-	7,597
Due to other funds	602,049	1,430,560	(2,032,609)	-
Estimated claims payable	420,550	-	-	420,550
Accrued payroll and benefits	268,912	-	-	268,912
Notes and contracts payable - current	301,687	-	-	301,687
Compensated absences - current	328,896	-	-	328,896
Unearned revenue:				
General fund carry forward	220,637	-	-	220,637
Adult Benefit Waiver	1,736,024	-	-	1,736,024
Other	22,123	-	-	22,123
Total current liabilities	9,685,571	1,430,560	(2,032,609)	9,083,522
Noncurrent liabilities:				
Notes and contracts payable, net of current portion	1,469,003	-	-	1,469,003
Total liabilities	11,154,574	1,430,560	(2,032,609)	10,552,525
Net assets				
Invested in capital assets, net of related debt	976,439	-	-	976,439
Restricted for retirement costs	-	157,072	-	157,072
Restricted for postemployment benefits	-	8,014,199	-	8,014,199
Restricted for risk of managed care	-	135,297	-	135,297
Unrestricted	2,331,710	-	-	2,331,710
Total net assets	\$ 3,308,149	\$ 8,306,568	\$ -	\$11,614,717

The accompanying notes are an integral part of these financial statements.

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF ACTIVITIES AND
PROPRIETARY FUND REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Enterprise Operating Fund</u>	<u>Internal Service Funds</u>	<u>Adjustments</u>	<u>Total Business-type Activities</u>
Operating revenues				
Capitated revenues	\$ 41,806,509	\$ -	\$ -	\$ 41,806,509
Fee for service	791,796	-	-	791,796
Local revenue	1,115,326	-	-	1,115,326
Contributions	-	766,552	(766,552)	-
Grant and categorical revenue	1,004,667	-	-	1,004,667
Total operating revenues	<u>44,718,298</u>	<u>766,552</u>	<u>(766,552)</u>	<u>44,718,298</u>
Operating expenses				
Program expenses:				
Children with Severe Emotional Disturbance Programs	2,652,653	-	(30,803)	2,621,850
Adults with Serious Mental Illness Programs	17,926,378	-	(208,163)	17,718,215
Developmental Disabilities Programs	21,858,270	-	(253,821)	21,604,449
Other populations	1,294,495	-	(15,032)	1,279,463
Unallocated costs	76,786	-	-	76,786
Non-program expenses:				
P.A. 530 local funds transfer	509,649	-	-	509,649
Provider tax	1,885,041	-	-	1,885,041
Postemployment health insurance	-	258,733	(258,733)	-
Total operating expenses	<u>46,203,272</u>	<u>258,733</u>	<u>(766,552)</u>	<u>45,695,453</u>
Operating income (loss)	<u>(1,484,974)</u>	<u>507,819</u>	<u>-</u>	<u>(977,155)</u>
Nonoperating revenues (expenses)				
Transfers in	1,430,560	-	(1,430,560)	-
Transfers out	-	(1,430,560)	1,430,560	-
Rent	101,431	-	-	101,431
Interest revenue	462,419	966,338	-	1,428,757
Miscellaneous revenue	55,682	-	-	55,682
Interest expense	(63,290)	-	-	(63,290)
Bay Connection maintenance expense	(102,459)	-	-	(102,459)
Total nonoperating revenues (expenses)	<u>1,884,343</u>	<u>(464,222)</u>	<u>-</u>	<u>1,420,121</u>
Change in net assets	399,369	43,597	-	442,966
Net assets, beginning of year, as restated	<u>2,908,780</u>	<u>8,262,971</u>	<u>-</u>	<u>11,171,751</u>
Net assets, end of year	<u>\$ 3,308,149</u>	<u>\$ 8,306,568</u>	<u>\$ -</u>	<u>\$ 11,614,717</u>

The accompanying notes are an integral part of these financial statements

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Operating Fund	Internal Service Funds
Cash flows from operating activities:		
Cash received from customers and other:	\$ 46,948,529	\$ -
Cash received from other funds	365,173	809,879
Cash payments to other funds	(809,879)	(365,173)
Cash payments to employees	(16,018,117)	-
Cash payments to suppliers for goods and services	(31,995,372)	(258,733)
Net cash provided (used) by operating activities	(1,509,666)	185,973
Cash flows from non-capital financing activities		
Transfers in	1,430,560	-
Cash flows from capital and related financing activities		
Proceeds from notes	175,000	-
Principal paid on notes	(262,405)	-
Interest paid on notes	(63,290)	-
Purchase of capital assets	(202,819)	-
Net cash used by capital and related financing activities	(353,514)	-
Cash flows from investing activities		
Interest received	462,419	966,338
Rent received	101,431	-
Payments for Bay Connection maintenance	(102,459)	-
Sale of investments	92,618	-
Purchases of investments	-	(1,444,626)
Net cash provided (used) by investing activities	554,009	(478,288)
Net increase (decrease) in cash and cash equivalents	121,389	(292,315)
Cash and cash equivalents, beginning of year	457,824	1,858,172
Cash and cash equivalents, end of year	\$ 579,213	\$ 1,565,857
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ (1,484,974)	\$ 507,819
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	674,127	-
(Increase) decrease in assets:		
Accounts receivable	(139,634)	-
Due from State of Michigan	2,539,121	-
Due from other funds	(1,065,387)	43,327
Inventory	(6,630)	-
Prepaid expenses	(58,673)	-
Increase (decrease) in liabilities:		
Accounts payable	(1,408,919)	-
Accrued liabilities	465	-
Due to other funds	(43,327)	(365,173)
Estimated claims payable	(395,815)	-
Accrued payroll and benefits	37,474	-
Accrued compensated absences	11,762	-
Unearned revenue	(169,256)	-
Net cash provided (used) by operating activities	\$ (1,509,666)	\$ 185,973

The accompanying notes are an integral part of these financial statement

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for The Saginaw County Community Mental Health Authority, (the “Authority”), established under Public Act 267 of 1976, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

A. Reporting Entity

As indicated above, the Authority is a Community Mental Health Authority serving the mental health and developmental disability needs of Saginaw County residents. Its Board of Directors is appointed by the County Commissioners of Saginaw County.

B. Government-wide and Fund Financial Statements

As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and the Statement of Activities and Proprietary Fund Revenues, Expenses and Changes in Fund Net Assets. The Authority’s only major fund is reported in a separate column in the aforementioned financial statements.

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The enterprise fund is the Authority's primary operating fund, and only major fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

The internal service funds are used to account for and finance potential uninsured risks of loss related to various funding received through the Michigan Department of Community Health (MDCH), as well as accounting for and financing postemployment health benefits and other selected retirement costs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund and of the government's internal service funds are charges to customers for services. Operating expenses for the enterprise fund and internal service funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities and Equity

1. Deposits and Investments

Cash and cash equivalents consist of deposits in checking accounts, other demand accounts and amounts deposited in a pooled liquid asset account.

Statutory Authority

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the investments company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Authority's investment policy allows for all of these types of investments.

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

2. *Accounts Receivable*

Accounts receivable are shown net of an allowance for uncollectibles and settlement adjustments. Consumer accounts receivable and revenue are recorded when services are performed. A substantial portion of the Authority's receivables from services to consumers is received under contractual arrangements with Medicaid, Medicare and other commercial insurance programs, whereby the Authority is paid based on allowable costs incurred. The preliminary settlement of amounts due to the Authority is subject to redetermination upon audit by the applicable agency. An estimated provision is made for possible adjustments that may result from such reviews and any differences between the amounts accrued and amounts settled are recorded in operations in the period of settlement. Fee accounts receivable are shown net of an allowance for uncollectibles, which is based on management's estimate using collection history trends.

3. *Inventory*

Inventories are valued at cost. The costs of inventories are recorded as expenses when consumed rather than when purchased.

4. *Prepayments*

Payments made to vendors for services that will benefit periods beyond September 30, 2006, are recorded as "prepaid expenses" in the accompanying statement of net assets.

5. *Capital Assets*

Capital assets, which include property, plant and equipment are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	15-50
Equipment	3-10
Machinery	5-12
Vehicles	3-10

6. *Contract with Michigan Department of Community Health*

The Authority has several account balances that relate to the Authority's contract with the Michigan Department of Community Health (MDCH). The amount reported as "Due from Michigan Department of Community Health" reflects a receivable from the various grantor agencies for services provided under the contract for the year ended September 30, 2006, and amounts owed back to the Authority from the State as the result of the year end cost settlement. "Due to Michigan Department of Community Health" largely reflects amounts due to the State for clients of the Authority placed in state institutions.

7. *Compensated Absences*

Accumulated compensated absences (i.e., paid time off) are reported as expenses and liabilities of the Authority when incurred.

8. *Unearned Revenue*

Unearned revenue represents that portion of the current year Adult Benefit Waiver (ABW) contract amount and grant proceeds that may be expended in the subsequent fiscal year. Such carry over is generally limited to 5% of the General Fund contract, and must be spent in the following year.

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown in the basic financial statements to the Authority's deposits and investments is as follows:

	<u>Carrying Amount</u>
Financial Statement Captions:	
Cash and cash equivalents	\$ 2,145,070
Investments	<u>15,907,909</u>
	<u>\$ 18,052,979</u>
Notes to financial statements:	
Deposits	\$ 7,494,238
Cash on hand	369
Investments	<u>10,558,372</u>
	<u>\$ 18,052,979</u>

The Authority chooses to disclose its investments by specifically identifying each. As of year end, the Authority had the following investments.

Investment	Maturity In years	Fair Value	Ratings
Vanguard IT Bond Index Fund Investor Shares	7.5	\$ 1,177,579	Lehman AA2/AA3
Vanguard Short-Term Treasury Fund Admiral Shares	2.7	199,353	Lehman AAA/AAA
Vanguard IT Treasury Fund Admiral Shares	7.9	1,013,204	Lehman AAA/AAA
Vanguard Long-Term Bond Index Fund	20.2	1,470,208	Lehman AA2/AA3
American Century Investments	N/A	1,096,638	Morningstar ★★★
Schwab 1000 Index Fund	N/A	1,168,997	Morningstar ★★★★★
Schwab Money Market	N/A	114,944	N/A
Vanguard Index 500 Portfolio	N/A	1,328,299	N/A
Daimler Chrysler North Commercial Paper	N/A	2,000,000	Moody P2, S&P A2
Institutional Money Market Fund	N/A	<u>989,150</u>	Moody Aaa, S&P AAAM
		<u>\$ 10,558,372</u>	

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note D.1. of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note D.1. of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end \$5,956,478 of the Authority's bank balance of \$6,200,063 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. Of the investments listed above, there is no custodial credit risk as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note D.1. of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the Authority's investments are in Vanguard IT Bond Index Fund Investor Shares, Vanguard IT Treasury Fund Admiral Shares, Vanguard Long Term Bond Index Fund, American Century Investments, Schwab 1000 Index Fund, Vanguard Index 500 Portfolio, and Daimler Chrysler North commercial paper. All investments held at year end are reported above.

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital assets activity for the year ended September 30, 2006, was as follows:

	<u>Beginning Balance as, Restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activity				
Capital assets not being depreciated:				
Land	\$ 673,000	\$ 36,000	\$ -	\$ 709,000
Work in progress	-	3,750	-	3,750
	<u>673,000</u>	<u>39,750</u>	<u>-</u>	<u>712,750</u>
Total capital assets not being depreciated:	<u>673,000</u>	<u>39,750</u>	<u>-</u>	<u>712,750</u>
Capital assets being depreciated:				
Buildings and improvements	8,662,551	139,000	(70,379)	8,731,172
Furniture and fixtures	691,667	-	(73,260)	618,407
Vehicles	552,736	-	(14,995)	537,741
Equipment	1,128,082	24,069	(46,074)	1,106,077
	<u>11,035,036</u>	<u>163,069</u>	<u>(204,708)</u>	<u>10,993,397</u>
Total capital assets being depreciated	<u>11,035,036</u>	<u>163,069</u>	<u>(204,708)</u>	<u>10,993,397</u>
Less accumulated depreciation:				
Buildings and improvements	7,075,288	383,112	(70,379)	7,388,021
Furniture and fixtures	481,447	45,840	(73,260)	454,027
Vehicles	376,732	54,028	(14,995)	415,765
Equipment	538,822	208,457	(46,074)	701,205
	<u>8,472,289</u>	<u>691,437</u>	<u>(204,708)</u>	<u>8,959,018</u>
Total accumulated depreciation	<u>8,472,289</u>	<u>691,437</u>	<u>(204,708)</u>	<u>8,959,018</u>
Total capital assets being depreciated, net	<u>2,562,747</u>	<u>(528,368)</u>	<u>-</u>	<u>2,034,379</u>
Business-type activity capital assets, net	<u>\$ 3,235,747</u>	<u>\$ (488,618)</u>	<u>\$ -</u>	<u>\$ 2,747,129</u>

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

C. Long-Term Debt

The Authority's long-term debt as of September 30, 2006, is summarized as follows:

	<u>Balance October 1, 2005, as Restated</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance September 30, 2006</u>	<u>Due Within One Year</u>
<p>Bay Connections Property Installment Contract - The installment purchase agreement dated May 15, 1998, has 76 monthly payments which bear interest at 3.4%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.</p>	\$ 391,117	\$ -	\$ (66,412)	\$ 324,705	\$ 68,407
<p>Gera Road Note Payable – The note dated December 20, 2002, has 60 monthly payments which bear interest at 3.42%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.</p>	136,540	-	(9,108)	127,432	9,428
<p>Riverfront Road Note Payable – The note dated April 1, 2003 has 57 monthly payments which bear interest at 3.13%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.</p>	133,853	-	(8,884)	124,969	9,171
<p>Rambo Group Home Note Payable – The note dated December 1, 2003 has 48 monthly payments which bear interest at 3.236%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.</p>	177,121	-	(10,888)	166,233	11,245

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

	Balance October 1, 2005, as <u>Restated</u>	<u>Additions</u>	<u>(Reductions)</u>	Balance September 30, 2006	Due Within One Year
Geddes Group Home Note Payable – The note dated February 10, 2005, has 33 monthly payments which bear interest at 3.46% with a final principal payment of \$162,262 due on December 20, 2007.	\$ 184,464	\$ -	\$ (10,041)	\$ 174,423	\$ 10,395
St. Charles Group Home Note Payable – The note dated July 26, 2006, has 77 monthly payments which bear interest at 5.19% with a final principal payment of \$116,562 due on December 20, 2012.	-	175,000	(2,072)	172,928	8,041
Total notes payable	<u>1,023,095</u>	<u>175,000</u>	<u>(107,405)</u>	<u>1,090,690</u>	<u>116,687</u>
Contracts Payable – Saginaw County Building Authority OBRA Group Homes, original issue of \$450,000 with annual maturities of \$10,000 to \$55,000 maturing through August 1, 2011 bearing interest from 2.75% to 5.75%.	290,000	-	(30,000)	260,000	50,000
Mental Health Group Homes, original issue of \$1,500,000 with annual maturities of \$70,000 to \$150,000 maturing through April 1, 2009 bearing interest from 4.40% to 6.40%.	545,000	-	(125,000)	420,000	135,000
Total contracts payable	<u>835,000</u>	<u>-</u>	<u>(155,000)</u>	<u>680,000</u>	<u>185,000</u>
Total notes and contracts payable	<u>1,858,095</u>	<u>175,000</u>	<u>(262,405)</u>	<u>1,770,690</u>	<u>301,687</u>
Accrued compensated absences	<u>317,134</u>	<u>724,950</u>	<u>(713,188)</u>	<u>328,896</u>	<u>328,896</u>
TOTAL LONG TERM DEBT	<u>\$ 2,175,229</u>	<u>\$ 899,950</u>	<u>\$(975,593)</u>	<u>\$ 2,099,586</u>	<u>\$ 630,583</u>

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

The annual requirements to pay future principal and interest on the installment contract and notes payable debt are as follows:

<u>Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 301,687	\$ 66,686
2008	817,052	41,029
2009	282,220	25,219
2010	140,271	13,167
2011	102,169	8,802
2012-2013	<u>127,291</u>	<u>7,927</u>
	<u>\$ 1,770,690</u>	<u>\$ 162,830</u>

D. Managed Care Reserve Fund

Net assets in the Managed Care Reserve Internal Service Fund are restricted for future shortfalls between revenue and expenses.

Following is a schedule of changes in net assets of the Managed Care Risk Reserve Internal Service Fund:

Beginning balance	\$ 1,492,999
Additions	72,858
Deletions	<u>(1,430,560)</u>
Ending balance	<u>\$ 135,297</u>

E. Operating Leases

During the fiscal year 2004, the Authority entered into a lease agreement with a private company to operate a pharmacy within the Authority's building. The total rent revenue received from this agreement by the Authority for the fiscal year ended September 30, 2006, was \$24,000. The Authority is in the process of renewing the lease at the same rate as the prior years.

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

F. Interfund Receivables, Payables and Transfers

Due To	Due From		
	Operating Fund	Internal Service Funds	Total
Operating Fund	\$ -	\$ 1,430,560	\$ 1,430,560
Internal Service Funds	602,049	-	602,049
Total	<u>\$ 602,049</u>	<u>\$ 1,430,560</u>	<u>\$ 2,032,609</u>

The balance of \$1,430,560 due to the Operating Fund from the Internal Service Funds is the amount that can be transferred from the Managed Care Risk Reserve Internal Service Fund to cover the current year shortfall between expenses and revenues in the Operating Fund.

The balance of \$602,049 due to the Internal Service Funds from the Operating Fund is comprised of \$157,072 owed to the Retirement Internal Service fund for future retirement costs and \$444,977 owed to the Postemployment Benefits Internal Service fund for a portion of the current year contributions for postemployment benefits.

Transfer From	Transfer To Operating Fund
Internal Service Fund	\$ 1,430,560
Total	<u>\$ 1,430,560</u>

The transfer from the Internal Service Fund to the Operating Fund was to cover the current year shortfall between expenses and revenues in the Operating Fund.

III. OTHER INFORMATION

A. Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (worker's compensation), as well as medical benefits provided to employees and retirees. During the year ended September 30, 2006, the Authority carried commercial insurance to cover all risk of losses other than those for

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

medical benefits provided to employees and retirees. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three years. The Authority is self-funded for health insurance subject to stop loss insurance limits so that the maximum amount of loss is fixed at a predetermined amount. This amount is provided in the Authority’s annual budget.

The self-insurance program for health insurance is accounted for in the Enterprise Fund. An independent administrator (Blue Cross) is hired to process the daily claims. The Authority is responsible for individual claims up to \$25,000 per participant or \$7,685 times the number of participants in the aggregate. Blue Cross is responsible for paying the claims above this amount. There were no reductions of insurance coverage from the prior year. The Authority is also responsible for paying administrative charges and stop loss insurance premiums. The liability at the end of the year is based on claims already incurred and reported as provided by Blue Cross and on estimates of incurred but not reported claims as estimated by management which cannot exceed the stop loss insurance limits. Settled claims have not exceeded insurance coverage in any of the past three years.

The changes in the claims liability for the years ended September 30, 2005 and 2006, are as follows:

<u>Fiscal Year</u>	<u>Beginning of Period Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Period Liability</u>
2005	\$ 441,596	\$ 1,576,686	\$ 1,201,917	\$ 816,365
2006	816,365	621,229	1,017,044	420,550

B. Defined Benefit Pension Plan

Plan Description

The Authority’s defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Authority is required to contribute at an actuarially determined rate; the current rate of annual covered payroll is 13.78% for mental health workers, 50.59% for supervisors, 34.14% for non-union management, 10.93% for general non-union, and a flat fee of \$861 a month for senior administrators. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Authority, depending on the MERS contribution program adopted by the Authority.

Annual Pension Cost

For the year ended September 30, 2006, the Authority's annual pension cost of \$271,725 for MERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the Authority's December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Trend Information			
Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
9/30/04	\$ 255,002	100%	\$0
9/30/05	288,811	100%	0
9/30/06	271,725	100%	0

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) -Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
12/31/03	\$10,135,800	\$13,151,730	\$3,015,930	77%	\$1,743,312	173%
12/31/04	10,430,359	13,352,165	2,921,806	78%	1,521,774	192%
12/31/05	10,622,106	13,999,772	3,377,666	76%	1,468,550	230%

C. Defined Contribution Pension Plan

The Saginaw County Community Mental Health Authority Defined Contribution Pension Plan was established by the Authority to provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is administered by a third party on behalf of the participants and their beneficiaries. At September 30, 2006, there were 194 plan members. Plan members may contribute either 0% or 3% of covered salary. The Authority is required to contribute either 6% or 9% of annual covered payroll, depending on the percentage being contributed by the employee. Plan provisions and contributions requirements are established and may be amended by the Authority Board. In accordance with the Plan contribution requirements, \$201,730 in employee contributions and \$632,847 in employer contributions were made for the year ended September 30, 2006.

D. Postemployment Health Benefits

In addition to the pension benefits described in Note IIIB and IIIC, the Authority provides postretirement health care benefits, in accordance with State statutes, to all employees provided proper application is made prior to retirement and the employee is a member of the plan on the date of retirement and the employee agrees to participate in a co-pay program. Currently, 39 retirees meet those eligibility requirements. The Authority reimburses the amount of validated claims for medical, dental and hospitalization costs incurred by pre-Medicare retirees and their dependants based upon the employee's

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

number of years of service. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the government. During the year ended September 30, 2006, expenditures of \$258,733 were recognized for postretirement health care.

An analysis of the total postemployment health benefit obligation applicable to the Authority's employees was performed during the year. As of June 30, 2005, (the date for which the actuarial study was performed) the unfunded actuarial accrued liability was determined to be as follows:

Present value of future benefits	
Retirees and beneficiaries	\$ 5,116,897
Active members	<u>12,455,463</u>
Total present value of future benefits	17,572,360
Present value of future employer normal costs	<u>3,304,218</u>
Actuarial accrued liability	14,268,142
Actuarial value of assets	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 14,268,142</u>

Currently, the Authority has 39 participants receiving benefits under the Plan. This is a result of the County of Saginaw covering all participants that had retired at the time the Authority separated from the County.

Upcoming reporting change:

The Governmental Accounting Standards Board has recently released Statement No. 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statement to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2008. Management is currently assessing the impact of this new accounting standard on the Authority's financial statement for future reporting periods.

**SAGINAW COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

E. Adjustments

The adjustments presented on the Statement of Net Assets and Proprietary Fund Revenues, Expenses and Changes in Net Assets are required to eliminate interfund balances and activity between the Enterprise Fund and the Postemployment Benefits and Managed Care Risk Reserve Internal Service Funds, for presentation of the government-wide financial statements.

F. Prior Period Adjustments

During the year ended September 30, 2006, a prior period adjustment in the amount of \$44,720 was necessary to properly account for the understatement of capital assets and corresponding long term debt. The effect on the Operating Fund net assets was as follows:

Net assets, beginning of year, as previously stated	\$ 2,953,500
Prior period adjustment:	
Capital assets	2,350,000
Accumulated depreciation	(1,559,720)
Long term debt	<u>(835,000)</u>
Net assets, beginning of year, as restated	<u>\$ 2,908,780</u>

* * * * *

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS**

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
 DETAIL SCHEDULE OF REVENUES - ENTERPRISE FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Capitated Revenues	
Medicaid and Medicaid savings	\$ 32,405,037
General fund	9,034,667
Adult Benefit Waiver	340,691
MI Child	26,114
	<u>41,806,509</u>
Fee for Service Revenues	
Medicaid FFS	124,140
Childrens Waiver	587,789
Public Act 423 insurance	79,867
	<u>791,796</u>
Local	
County match	1,050,303
Other local	65,023
	<u>1,115,326</u>
Grant and Categorical revenue	
Tobacco tax	19,232
Multicultural services	48,250
Grants	937,185
	<u>1,004,667</u>
Nonoperating revenues	
Rental - Bay Connection Commercial	101,431
Miscellaneous revenue	55,682
Interest revenue	462,419
	<u>619,532</u>
Total revenue	<u><u>\$ 45,337,830</u></u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND
 CHILDREN WITH SEVERE EMOTIONAL DISTURBANCE PROGRAMS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Hospitalization</u>	<u>Clinical Services</u>	<u>Case Management</u>
Operating expenses			
Salaries and wages	\$ -	\$ 16,334	\$ 868,066
Allocated employee benefits	-	13	356,052
Supplies	-	-	12,491
Subtotal	<u>-</u>	<u>16,347</u>	<u>1,236,609</u>
Services and charges:			
Contracted services	204,709	132,341	110,131
Allocated costs	-	1,817	657,690
Insurance	-	-	8,685
Utilities	-	-	2,635
Repairs and maintenance	-	-	1,564
Clinical services	-	-	4,900
Other	-	-	63,581
Total services and charges	<u>204,709</u>	<u>134,158</u>	<u>849,186</u>
Depreciation	-	-	999
TOTALS	<u><u>\$ 204,709</u></u>	<u><u>\$ 150,505</u></u>	<u><u>\$ 2,086,794</u></u>

Residential Services	Prevention Services	Totals
\$ -	\$ -	\$ 884,400
-	-	356,065
-	-	12,491
-	-	1,252,956
43,779	166,826	657,786
-	-	659,507
-	-	8,685
-	-	2,635
-	-	1,564
-	-	4,900
-	40	63,621
43,779	166,866	1,398,698
-	-	999
<u>\$ 43,779</u>	<u>\$ 166,866</u>	<u>\$ 2,652,653</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND
 ADULTS WITH SERIOUS MENTAL ILLNESS PROGRAMS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Hospitalization</u>	<u>Emergency Services</u>	<u>Clinical Services</u>	<u>Case Management</u>
Operating expenses				
Personal services	\$ -	\$ 592,016	\$ 569,544	\$ 786,143
Allocated employee benefits	-	250,960	303,948	324,443
Supplies	-	5,152	1,834	11,435
Subtotal	-	848,128	875,326	1,122,021
Services and charges:				
Contracted services	5,508,977	507,744	1,201,289	663,510
Allocated costs	380,421	409,186	291,118	899,937
Insurance	-	6,031	13,989	13,628
Utilities	-	5,052	-	599
Repairs and maintenance	-	4,987	-	4,974
Clinical services	-	726	336,327	3,045
Other	-	3,986	2,351	54,420
Total services and charges	5,889,398	937,712	1,845,074	1,640,113
Depreciation	-	2,906	3,000	2,906
TOTALS	<u>\$ 5,889,398</u>	<u>\$ 1,788,746</u>	<u>\$ 2,723,400</u>	<u>\$ 2,765,040</u>

<u>Clubhouse House Services</u>	<u>Residential Services</u>	<u>Employment Skill Building</u>	<u>Prevention Services</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ 267,733	\$ 2,215,436
-	-	-	113,310	992,661
-	-	-	5,114	23,535
-	-	-	386,157	3,231,632
270,609	3,508,405	429	-	11,660,963
36,667	376,190	2,000	156,546	2,552,065
-	-	-	3,703	37,351
-	-	-	-	5,651
-	-	-	2,021	11,982
-	-	-	-	340,098
-	-	-	14,929	75,686
307,276	3,884,595	2,429	177,199	14,683,796
-	-	-	2,138	10,950
<u>\$ 307,276</u>	<u>\$ 3,884,595</u>	<u>\$ 2,429</u>	<u>\$ 565,494</u>	<u>\$ 17,926,378</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND
 PERSONS WITH DEVELOPMENTAL DISABILITIES PROGRAMS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Hospitalization</u>	<u>Emergency Services</u>	<u>Clinical Services</u>	<u>Case Management</u>
Operating expenses				
Personal services	\$ -	\$ 1,347,314	\$ 273,607	\$ 736,902
Allocated employee benefits	-	536,395	61,747	300,058
Supplies	-	55,742	1,904	2,074
Subtotal	<u>-</u>	<u>1,939,451</u>	<u>337,258</u>	<u>1,039,034</u>
Services and charges:				
Contracted services	1,418,517	674,006	395,849	68,398
Allocated costs	-	1,304,157	199,216	453,573
Insurance	-	33,447	4,988	8,894
Utilities	-	3,605	-	-
Repairs and maintenance	-	28,913	-	-
Rents	-	38,600	-	-
Other	-	571,526	28,500	53,641
Total services and charges	<u>1,418,517</u>	<u>2,654,254</u>	<u>628,553</u>	<u>584,506</u>
Depreciation	<u>-</u>	<u>2,171</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>1,418,517</u>	<u>4,595,876</u>	<u>965,811</u>	<u>1,623,540</u>
Nonoperating expenses				
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTALS	<u><u>\$ 1,418,517</u></u>	<u><u>\$ 4,595,876</u></u>	<u><u>\$ 965,811</u></u>	<u><u>\$ 1,623,540</u></u>

<u>Clubhouse House Services</u>	<u>Residential Services</u>	<u>Prevention Services</u>	<u>Group Homes</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,357,823
-	-	-	-	898,200
-	-	-	8,133	67,853
-	-	-	8,133	3,323,876
34,656	11,710,280	37,440	-	14,339,146
-	990,362	30,321	-	2,977,629
-	-	101	-	47,430
-	-	-	9,684	13,289
-	23,572	-	79,848	132,333
-	-	-	96,480	135,080
-	15,019	489	18,852	688,027
34,656	12,739,233	68,351	204,864	18,332,934
-	55,726	-	143,563	201,460
34,656	12,794,959	68,351	356,560	21,858,270
-	-	-	63,290	63,290
<u>\$ 34,656</u>	<u>\$ 12,794,959</u>	<u>\$ 68,351</u>	<u>\$ 419,850</u>	<u>\$ 21,921,560</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND
 OTHER POPULATIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Hispanic Conference	Ticket to Work	Collaborative Body
Operating expenses			
Supplies	\$ -	\$ -	\$ 2,862
Services and charges:			
Contracted services	-	-	33,792
Allocated costs	-	-	456
Other	15,127	375	-
Total services and charges	15,127	375	34,248
TOTALS	\$ 15,127	\$ 375	\$ 37,110

Substance Abuse	Evidence Based Practice	Totals
\$ -	\$ 458	\$ 3,320
1,155,179	71,940	1,260,911
11,075	-	11,531
<u>-</u>	<u>3,231</u>	<u>18,733</u>
<u>1,166,254</u>	<u>75,171</u>	<u>1,291,175</u>
<u>\$ 1,166,254</u>	<u>\$ 75,629</u>	<u>\$ 1,294,495</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND
 UNALLOCATED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Board Administrative</u>	<u>Benefit Cost Pool</u>	<u>Management Information Services</u>
Operating expenses			
Salaries and wages	\$ 1,083,627	\$ -	\$ 393,548
Employee benefits	556,598	3,931,437	181,175
Supplies	<u>50,695</u>	<u>-</u>	<u>99,011</u>
Subtotal	<u>1,690,920</u>	<u>3,931,437</u>	<u>673,734</u>
Services and charges:			
Contracted services	206,421	-	189,166
Allocated costs	461,335	-	5,488
Insurance	41,208	-	3,015
Utilities	8,511	-	1,010
Repairs and maintenance	15,483	-	38,877
Other	<u>191,868</u>	<u>-</u>	<u>52,540</u>
Total services and charges	924,826	-	290,096
Depreciation	<u>3,782</u>	<u>-</u>	<u>189,255</u>
TOTALS	2,619,528	3,931,437	1,153,085
Allocated costs	<u>(2,597,290)</u>	<u>(3,931,437)</u>	<u>(1,153,085)</u>
UNALLOCATED COSTS	<u><u>\$ 22,238</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

<u>Motor Pool</u>	<u>Recipient Rights</u>	<u>Towerline Building</u>	<u>Transportation</u>
\$ -	\$ 210,056	\$ 87,648	\$ 236,238
-	93,816	41,890	110,185
<u>1,338</u>	<u>17,656</u>	<u>34,486</u>	<u>62,559</u>
<u>1,338</u>	<u>321,528</u>	<u>164,024</u>	<u>408,982</u>
-	21,068	1,447	-
-	88,225	28,714	22,438
5,583	2,580	1,770	31,259
-	3,050	32,161	842
934	1,357	18,920	49,383
<u>-</u>	<u>70,564</u>	<u>132,597</u>	<u>2,832</u>
6,517	186,844	215,609	106,754
<u>-</u>	<u>2,219</u>	<u>2,171</u>	<u>54,028</u>
7,855	510,591	381,804	569,764
<u>(7,855)</u>	<u>(510,591)</u>	<u>(381,804)</u>	<u>(569,764)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND
 UNALLOCATED COSTS (CONCLUDED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Quality</u>	<u>Network Services</u>	<u>Network Training Services</u>	<u>DHS Outstation</u>
Operating expenses				
Salaries and wages	\$ 494,825	\$ 306,599	\$ 103,854	\$ -
Employee benefits	230,529	164,749	39,674	-
Supplies	<u>9,736</u>	<u>8,767</u>	<u>10,516</u>	<u>144</u>
Subtotal	<u>735,090</u>	<u>480,115</u>	<u>154,044</u>	<u>144</u>
Services and charges:				
Contracted services	3,112	131,941	3,753	35,234
Allocated costs	142,346	70,582	44,983	6,422
Insurance	4,826	3,167	648	-
Utilities	1,198	317	-	-
Repairs and maintenance	583	-	-	-
Other	<u>15,761</u>	<u>10,444</u>	<u>14,625</u>	<u>-</u>
Total services and charges	167,826	216,451	64,009	41,656
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTALS	902,916	696,566	218,053	41,800
Allocated costs	<u>(902,916)</u>	<u>(683,818)</u>	<u>(218,053)</u>	<u>-</u>
UNALLOCATED COSTS	<u><u>\$ -</u></u>	<u><u>\$ 12,748</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 41,800</u></u>

<u>Hancock Building</u>	<u>Total</u>
\$ 65,454	\$ 2,981,849
30,866	5,380,919
50,624	345,532
<u>146,944</u>	<u>8,708,300</u>
31,449	623,591
-	870,533
2,369	96,425
150,953	198,042
84,187	209,724
-	491,231
<u>268,958</u>	<u>2,489,546</u>
<u>209,263</u>	<u>460,718</u>
625,165	11,658,564
<u>(625,165)</u>	<u>(11,581,778)</u>
<u><u>\$ -</u></u>	<u><u>\$ 76,786</u></u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
 COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS
 SEPTEMBER 30, 2006**

	<u>Retirement</u>	<u>Postemployment Benefits</u>	<u>Managed Care Risk Reserve</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 1,565,857	\$ 1,565,857
Investments	-	7,569,222	-	7,569,222
Due from other funds	157,072	444,977	-	602,049
Total assets	157,072	8,014,199	1,565,857	9,737,128
Liabilities				
Due to other funds	-	-	1,430,560	1,430,560
Net Assets				
Restricted for retirement costs	157,072	-	-	157,072
Restricted for postemployment benefits	-	8,014,199	-	8,014,199
Restricted for Substance Abuse reserve	-	-	135,297	135,297
Total net assets	<u>\$ 157,072</u>	<u>\$ 8,014,199</u>	<u>\$ 135,297</u>	<u>\$ 8,306,568</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	<u>Retirement</u>	<u>Postemployment Benefits</u>	<u>Managed Care Risk Reserve</u>	<u>Total</u>
Operating revenues				
Contributions:				
Authority	\$ -	\$ 766,552	\$ -	\$ 766,552
Operating expenses				
Postemployment Health Insurance	-	258,733	-	258,733
Operating income	-	507,819	-	507,819
Nonoperating revenues (expenses)				
Transfers out	-	-	(1,430,560)	(1,430,560)
Interest	-	893,480	72,858	966,338
Total nonoperating revenues (expenses)	-	893,480	(1,357,702)	(464,222)
Change in net assets	-	1,401,299	(1,357,702)	43,597
Net assets, beginning of year	157,072	6,612,900	1,492,999	8,262,971
Net assets, end of year	<u>\$ 157,072</u>	<u>\$ 8,014,199</u>	<u>\$ 135,297</u>	<u>\$ 8,306,568</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Retirement	Postemployment Benefits	Managed Care Risk Reserve	Total
Cash flows from operating activities:				
Cash received from other funds	\$ -	\$ 809,879	\$ -	\$ 809,879
Cash payments to other funds	-	-	(365,173)	(365,173)
Cash payments to suppliers for goods and services	-	(258,733)	-	(258,733)
Net cash provided by operating activities	-	551,146	(365,173)	185,973
Cash flows from investing activities				
Interest received	-	893,480	72,858	966,338
Purchases of investments	-	(1,444,626)	-	(1,444,626)
Net cash provided (used) by investing activities	-	(551,146)	72,858	(478,288)
Net increase (decrease) in cash and cash equivalents	-	-	(292,315)	(292,315)
Cash and cash equivalents, beginning of year	-	-	1,858,172	1,858,172
Cash and cash equivalents, end of year	\$ -	\$ -	\$ 1,565,857	\$ 1,565,857
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ -	\$ 507,819	\$ -	\$ 507,819
Adjustments to reconcile operating income to net cash provided by operating activities				
Decrease in assets				
Due from other funds	-	43,327	-	43,327
Decrease in liabilities				
Due to other funds	-	-	(365,173)	(365,173)
Net cash provided by operating activities	\$ -	\$ 551,146	\$ (365,173)	\$ 185,973

INTERNAL CONTROL AND COMPLIANCE



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

January 29, 2007

Members of the Board
Saginaw County Community
Mental Health Authority
Saginaw, Michigan

We have audited the financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the *Saginaw County Community Mental Health Authority*, as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated January 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Saginaw County Community Mental Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Saginaw County Community Mental Health Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Saginaw County Community Mental Health Authority Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent initial 'L'.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

January 29, 2007

Saginaw County Community
Mental Health Authority
500 Hancock
Saginaw, MI

In planning and performing our audit of the financial statements of the *Saginaw County Community Mental Health Authority* for the year ended September 30, 2006, we considered the Authority's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestion regarding this matter. (A separate report dated January 29, 2007, contains our report on the Authority's compliance and internal controls). This letter does not affect our report dated January 29, 2007, on the financial statements of the *Saginaw County Community Mental Health Authority*.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various Authority personnel, and we will be pleased to discuss this comment in further detail at your convenience, or perform any additional studies of these matters, or to assist you in implementing the recommendation.

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
COMMENTS AND RECOMMENDATIONS

I. ACCOUNTS RECEIVABLE

During our audit procedures it was noted that the accounts receivable balance on the general ledger is offset by a contra-receivable account. This contra-receivable account contains payments received by the Authority for consumer services that have yet to be posted against the corresponding consumers balance. After inquiry with the Authority's finance department personnel it was determined that the reasoning for this delay is because the Authority is still in the process of converting to the new billing software. It was also noted that because of turnover in the finance department, there is not enough time for these postings to be made to the aged receivable schedule.

We recommend the Authority implement whatever procedures that are deemed necessary to ensure that patient insurance payments are posted in a timely manner.

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Unit Name Saginaw County CMH Authority	County Saginaw
Fiscal Year End September 30, 2006	Opinion Date May 3, 2007	Date Audit Report Submitted to State MAY 17, 2007		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

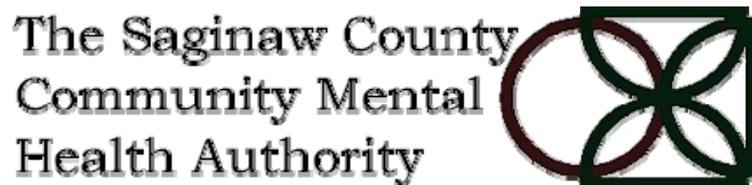
- YES NO Check each applicable box below.** (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input type="checkbox"/>	Previously sent
The letter of Comments and Recommendations	<input type="checkbox"/>	Previously sent
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit report
Certified Public Accountant (Firm Name) The Rehmann Group		Telephone Number 989-799-9580
Street Address 5800 Gratiot		City Saginaw
		State MI
		Zip 48605
Authorizing CPA Signature 		Printed Name Gerald Deslover
		License Number 1101007126

REPORT ON EXPENDITURES OF FEDERAL AWARDS



YEAR ENDED SEPTEMBER 30, 2006

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
REPORT ON EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
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SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2006

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTOR'S NUMBER	FEDERAL AWARDS EXPENDED
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
PASSED THROUGH MICHIGAN DEPARTMENT OF COMMUNITY HEALTH			
Medical Assistance Program (Medicaid; Title XIX) (PASARR)	93.778	N/A	\$ 261,147
Block Grants for Community Mental Health Services	93.958	N/A	167,240
Projects for Assistance in Transition from Homelessness (PATH)	93.150	N/A	35,200
Child Care and Development Block Grant	93.575	N/A	<u>70,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARD:			<u><u>\$ 533,587</u></u>

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Saginaw County Community Mental Health Authority, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

January 25, 2007

Members of the Board
Saginaw County Community
Mental Health Authority
Saginaw, Michigan

We have audited the basic financial statements of the *Saginaw County Community Mental Health Authority* as of and for the year ended September 30, 2006, and have issued our report thereon dated January 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the *Saginaw County Community Mental Health Authority's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Saginaw County Community Mental Health Authority's* basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not

an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee, management, Authority Board members, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

May 3, 2007

Members of the Board
Saginaw County Community
Mental Health Authority
Saginaw, Michigan

Compliance

We have audited the compliance of the *Saginaw County Community Mental Health Authority* with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2006. The *Saginaw County Community Mental Health Authority's* major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the *Saginaw County Community Mental Health Authority's* management. Our responsibility is to express an opinion on the *Saginaw County Community Mental Health Authority's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *Saginaw County Community Mental Health Authority's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *Saginaw County Community Mental Health Authority's* compliance with those requirements.

In our opinion, the *Saginaw County Community Mental Health Authority* complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2006.

Internal Control over Compliance

The management of the *Saginaw County Community Mental Health Authority* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *Saginaw County Community Mental Health Authority's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the *Saginaw County Community Mental Health Authority*, as of and for the year ended September 30, 2006, and have issued our report thereon dated January 25, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not required as part of the basic financial statements of the *Saginaw County Community Mental Health Authority*. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Audit Committee, management, Authority Board members, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *Unqualified on basic financial statements*

Internal controls over financial reporting:
Material weakness(es) identified? _____ yes X no
Reportable condition(s) identified not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ yes X no
Reportable condition(s) identified not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? _____ yes X no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.778	Medical Assistance Program (Medicaid; Title XIX) (PASARR)
93.150	Projects for Assistance in Transition from Homelessness (PATH)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

There were no audit findings in the prior year.